SAFEWAY STORES, INCORPORATED

ANNUAL REPORT

YEAR ENDED DECEMBER 31ST **1955**

SAFEWAY'S FINANCIAL HIGHLIGHTS

	1955	1954
OPERATIONS		
Sales	$1,932,243,202	$1,813,516,636
Earnings before income taxes	27,330,427	28,830,832
Net Earnings	13,621,803	13,983,771
Dividends to preferred stockholders	2,272,334	1,915,397
Net Earnings applicable to common stock	11,349,469	12,068,374
Net Earnings per share of common stock based on average number of shares outstanding during the year	3.25	3.52
Dividends to common stockholders	8,385,676	8,336,264
Dividends per share of common stock	2.40	2.40
FINANCIAL		
Current Assets	$ 263,598,336	$ 242,478,590
Current Liabilities	168,013,570	124,589,787
Working Capital	95,584,766	117,888,803
Current Ratio	1.57 to 1	1.95 to 1
Equity of common stockholders	115,681,313	112,458,013
Book Value per share of common stock	33.05	32.32
RETAIL STORES		
In operation – beginning of year	1,998	2037
New stores opened	104	44
Old stores closed	114	83
In operation – end of year	1,988	1998

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ANNUAL REPORT

TO THE STOCKHOLDERS

OF SAFEWAY STORES,

INCORPORATED

SALES

Your Company's sales were again at a new high in 1955. Total net sales of your Company and all subsidiaries consolidated were $1,932,243,202, an increase of $118,726,566, or 6.55% over the previous record made in 1954. Net sales in the United States were $1,758,178,230, an increase of $102,869,797 over 1954 sales for the same operations. Net sales of the Canadian subsidiaries (in Canadian dollars) were $174,064,972 in 1955 as compared with $158,208,203 in 1954.

EARNINGS

The net profit of your Company declined slightly from that earned in 1954. The 1955 net profit, before provision for taxes on income, of your Company and all subsidiaries was $27,330,427, as compared with a net profit, before income taxes, of $28,830,832 in 1954. After providing for United States Federal Normal Income Tax and Surtax of $10,490,000, Canadian taxes on income of $2,932,000 and State taxes on income of $286,624, the net profit, after all taxes on income, was $13,621,803 in 1955 as compared with $13,983,771 in 1954.

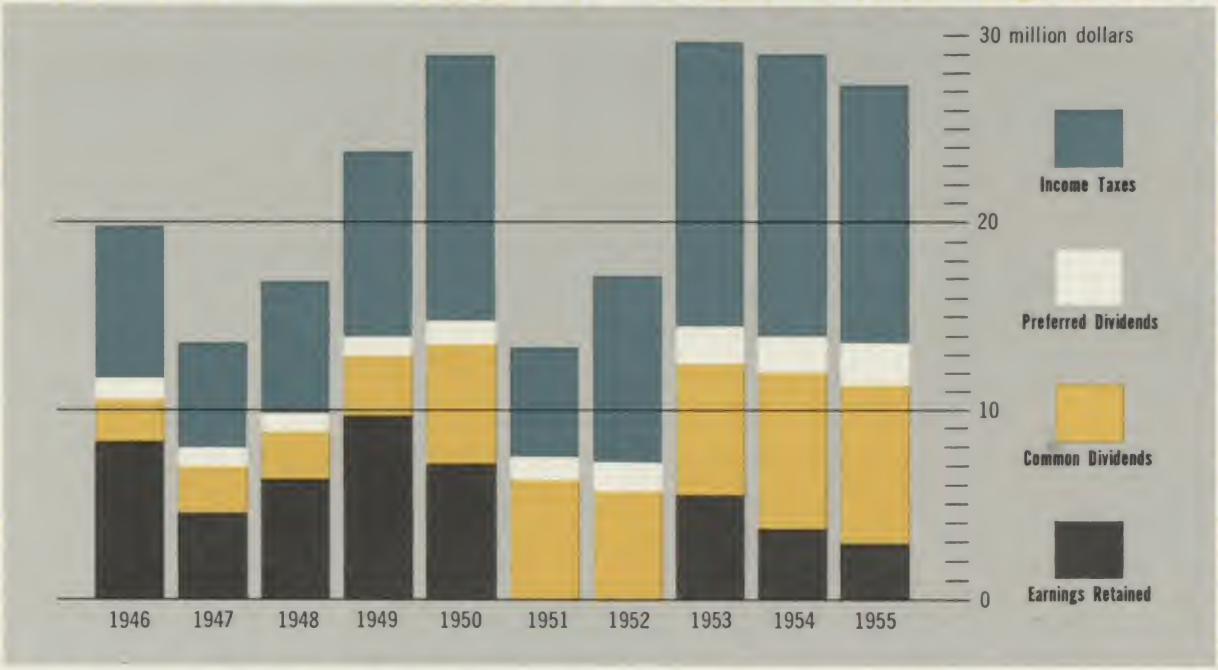
Consolidated net earnings of your Company and all subsidiaries applicable to the common stock, after payment of preferred dividends of $2,272,334, were equal to $3.25 per share on 3,492,129 shares, the average number of shares of common stock outstanding during 1955. This compares with $3.52 per share in

A modern Safeway store at Mill Valley, California, near famed Mt. Tamalpais.

1954 on 3,428,295 shares, the average number of common shares then outstanding. The decline in earnings occurred during the first 36 weeks of the year. Consolidated net earnings of your Company and all subsidiaries, after dividends on the preferred stock, for the 36-week period were $6,322,264, or $1.81 per share on the average number of shares of common stock outstanding during the period compared with net earnings of $8,865,194 or $2.60 per share of common stock during the same period in 1954. Consolidated net earnings, after dividends on the preferred stock, for the last 16 weeks of 1955 were $5,027,205 or $1.44 per share on the average number of shares of common stock outstanding during the period. Comparative net earnings for the same 16-week period in 1954 were $3,203,180 or $0.92 per share of common stock.

Dividend requirements on the 280,398 shares of 4% Cumulative Preferred Stock and 264,443 shares of 4.30% Cumulative Convertible Preferred Stock outstanding at the end of the year were earned 6.03 times.

Dividends have been paid by your Company without interruption on all outstanding shares of common and preferred stocks since its incorporation in 1926.



PRETAX EARNINGS, INCOME TAXES, NET INCOME, DIVIDEND DISTRIBUTIONS AND NET ADDITIONS TO RETAINED INCOME

FINANCIAL POSITION

The total net assets, total current assets and total current liabilities of your Company and all subsidiaries consolidated on December 31, 1955 are shown in the Statements of Financial Position bound with this report. Total current assets were $263,598,336, total current liabilities were $168,013,570, and the ratio of current assets to current liabilities was 1.57 to 1 on a fully consolidated basis.

In order to provide you with financial information in a simpler and more readable form, we have limited the Statements of Financial Position bound with this report to those prepared on a fully consolidated basis. It is our hope that this change in reporting will assist you in your analysis of the Company's overall operations.

Your Company's annual sales to the public, the average number of retail stores in operation and the average weekly sales per store for the last ten years are shown in the charts and tables set out in this report. Also shown in these charts and tables are the capital and surplus of your Company and all subsidiaries, the net assets per share of preferred stock and the book value, dividends paid and earnings per share on the common stock over the last ten years.

Book values are computed on the number of shares outstanding at the end of the year and earnings per share are based on the average number of shares outstanding during the year.

FINANCING BY CANADIAN SUBSIDIARIES

As of June 1, 1955, a Canadian subsidiary of your Company sold to the public $5,000,000 in principal amount of 4½% serial and term debentures. The proceeds received from this sale of debentures were applied toward the payment of the purchase price of retail store, plant, warehouse, office and automotive equipment purchased by the subsidiary from other Canadian subsidiaries which was then leased back for use by the Canadian operating subsidiaries at a rental sufficient to cover principal and interest payments on said debentures.

Also, on July 11, 1955, another Canadian subsidiary sold 100,000 shares of $100 par value 4.40% Cumulative Preferred Stock to the public at a price of $100 per share. The proceeds received from this sale of preferred stock were used to redeem and retire the outstanding First and Second Series of 5% Cumulative Preferred Stock of that subsidiary and for general corporate purposes.

SAFEWAY STORES, INCORPORATED, AND ALL SUBSIDIARIES CONSOLIDATED

Stockholders' Equity; Net Assets Per Share of Preferred Stock; Book Value, Dividends Paid and Net Earnings Per Share of Common Stock.

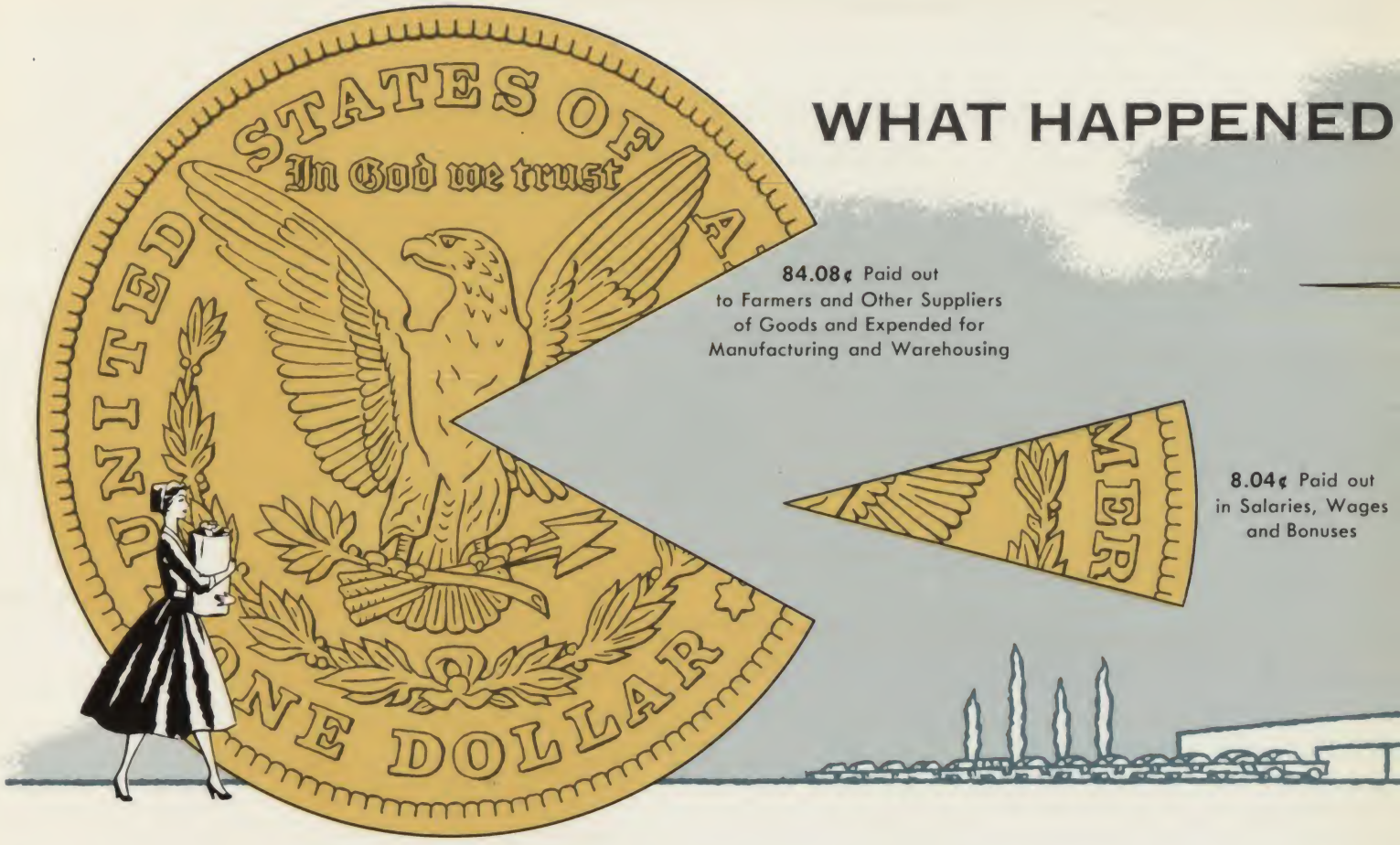
Year	*Stockholders' Equity*	*Net Assets Per Share of Preferred Stock*	*Book Value Per Share of Common Stock*	*Dividends Paid Per Share of Common Stock*	*Net Earnings Per Share of Common Stock*
1946	$ 71,901,081	$359	$20.18	$1.00	$4.29
1947	76,039,946	388	21.96	1.00	2.75
1948	81,972,829	428	24.44	1.00	3.50
1949	91,236,990	488	28.22	1.25	5.04
1950	115,215,274	371	29.76	2.40	5.20
1951	113,821,747	377	29.58	2.40	2.26
1952	132,273,480	266	29.03	2.40	2.01
1953	138,196,700	335	31.23	2.40	4.31
1954	167,487,613	304	32.32	2.40	3.52
1955	170,165,413	312	33.05	2.40	3.25

CONSTRUCTION PROGRAM

The year 1955 was again an impressive one from the standpoint of the Company's construction program. During the year the Company completed 104 new retail locations, 89 of which were located in the United States and 15 in Canada. An additional 58 retail locations, all of which should be completed during the first half of 1956, were under construction at the year end. In addition, plans and specifications were either prepared or in the process of preparation for another 74 retail stores. Barring unforeseen delays, substantially all of these locations should also be completed and in operation before the end of 1956. The Company also owns or holds under option land sites for 275 additional retail stores which are scheduled for construction during 1956, 1957 and 1958.

Your Company completed warehouse and distribution centers at Garland, Texas, and Little Rock, Arkansas, during the year. In addition, it completed construction of a frozen foods warehouse at Los Angeles, California; a bottled wine storage warehouse at Fresno, California; a produce prepacking plant at Washington, D. C.; a perishable goods ware-

This somewhat typical Safeway store is located in Phoenix, Arizona.



house at Calgary, Alberta, and a vegetable cannery at Taber, Alberta.

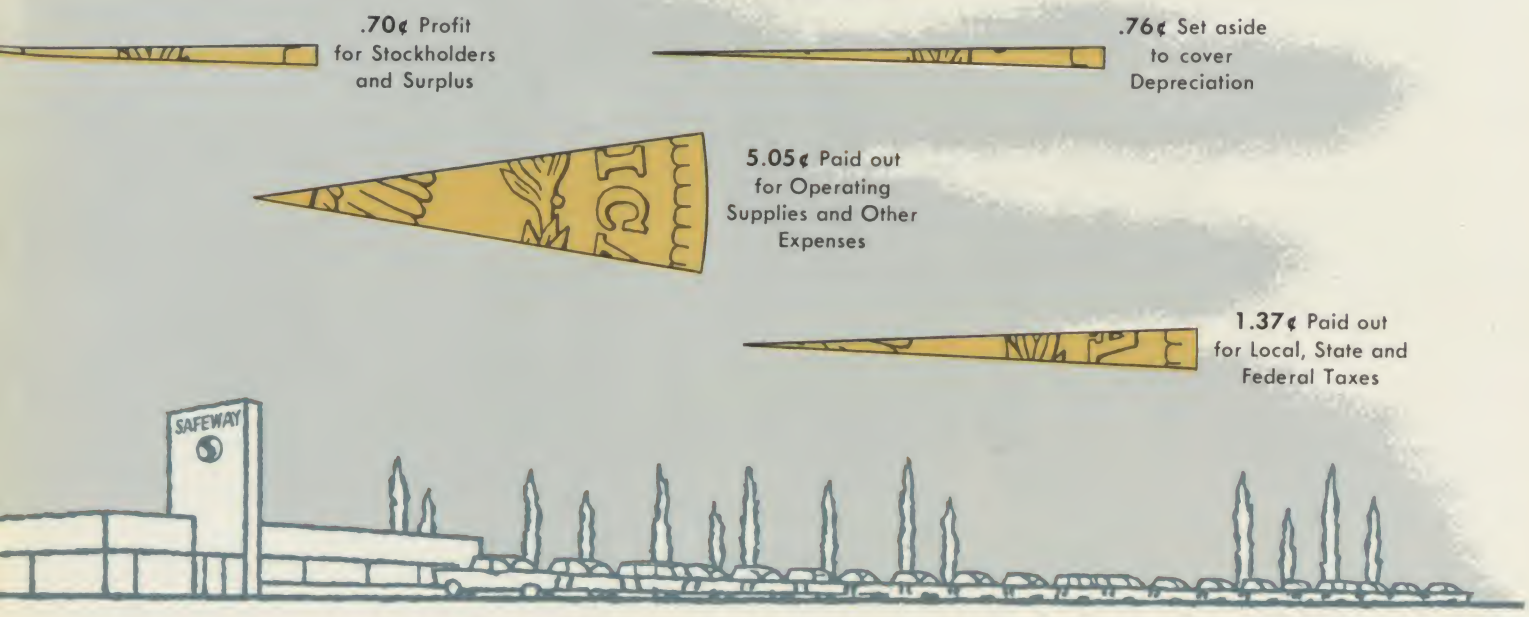
Plans are under study for other warehouses and plants, these facilities to be constructed as required for the proper servicing of your Company's retail stores.

FACILITIES AT THE END OF THE YEAR

Your Company opened 89 retail stores and closed 111 retail stores in the United States during 1955. In the same period 15 retail stores were opened and 3 retail stores closed in Canada. At the end of the year there were 1,837 retail stores, 21 grocery warehouses, 21 produce warehouses, 11 meat warehouses, 15 bread bakeries, 4 cake bakeries, 2 cracker and cookie bakeries, a jam and jelly plant, a candy plant, 10 fluid milk plants, 10 ice cream plants and 6 coffee roasting plants and a number of smaller plants and warehouses in operation in the United States and 151 retail stores, 12 grocery warehouses, 4 produce warehouses, 3 bakeries, 2 fluid milk plants, a coffee roasting plant, a fruit cannery, a vegetable cannery and a jam and jelly plant in operation in Canada.

The expense of closing vacated stores and the unamortized value of leasehold improve-

TO SAFEWAY'S 1955 SALES DOLLAR?



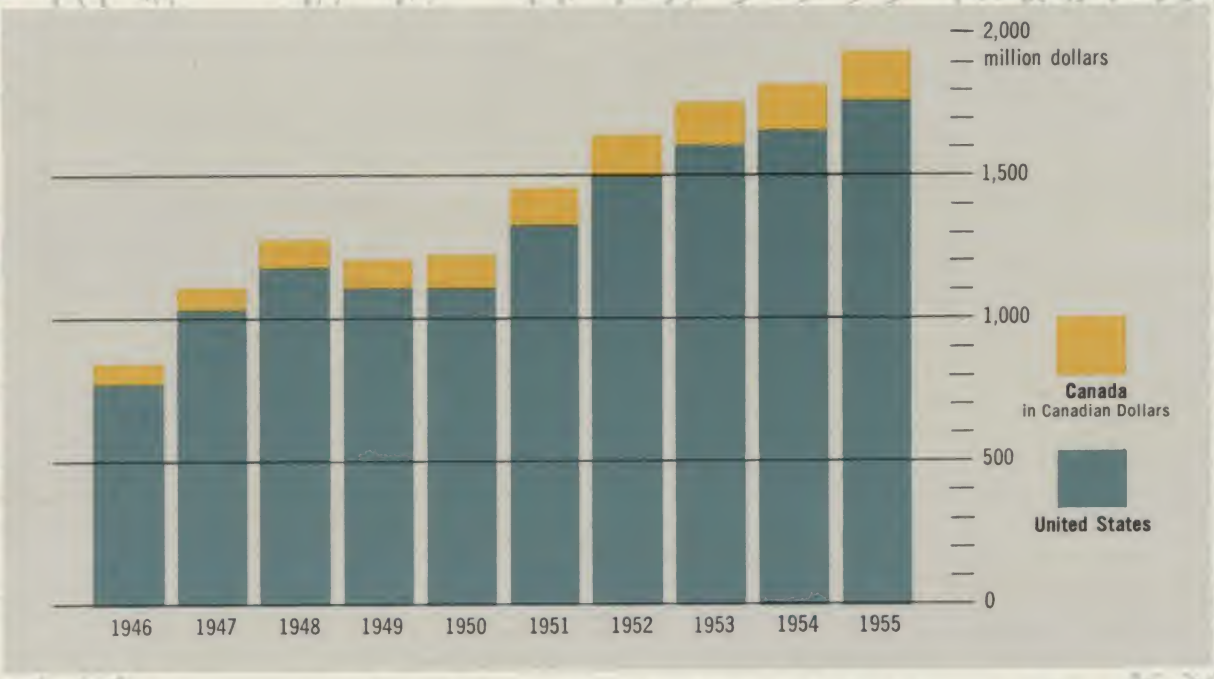
ments on these stores have been charged against current earnings. Leasehold improvements on continuing stores are being charged off on an amortization basis.

EMPLOYEE RELATIONS

The strike of clerks and meat cutters which closed your Company's retail stores in New York was settled and the stores reopened for business on August 8, 1955. No other serious work stoppages took place during the year and at the year-end your Company's relations with its employees and their union representatives were excellent.

LITIGATION

Your Company is a party to litigation that began July 7, 1955, with the return of an indictment by a Federal Grand Jury in Fort Worth, Texas, against it, Lingan A. Warren, its former President, and Earl Cliff, its Dallas Division Manager, charging violations of the Sherman Antitrust Act and the Robinson-Patman Act. The indictment arose out of your Company's action in directly meeting trading stamp competition, loss leaders and other forms of price-cutting in Texas and New Mexico. Subsequently, this indictment was dismissed and a criminal information and a civil action con-



TOTAL SALES U.S.A. AND CANADA

	Year	In Thousands of Dollars			Retail Stores	Average Weekly Sales Per Retail Store
		Retail Sales	Wholesale Sales	Total Sales		
UNITED STATES	1946	$ 785,574	$.....	$ 785,574	2,287	$ 6,606
	1947	1,037,797	5,205	1,043,002	2,260	8,831
	1948	1,178,702	9,113	1,187,815	2,169	10,253
	1949	1,095,064	7,683	1,102,747	2,066	10,193
	1950	1,100,852	9,596	1,110,448	1,949	10,862
	1951	1,320,919	10,749	1,331,668	1,967	12,914
	1952	1,481,712	17,182	1,498,894	1,966	14,493
	1953	1,578,481	23,697	1,602,178	1,916	15,545
	1954	1,634,769	20,539	1,655,308	1,869	16,825
	1955	1,737,721	20,457	1,758,178	1,854	18,230
CANADA (In Canadian Dollars)	1946	$ 42,568	$19,623	$ 62,191	141	$ 5,806
	1947	51,594	22,469	74,063	141	7,037
	1948	67,247	21,730	88,977	139	9,128
	1949	75,207	22,900	98,107	136	10,634
	1950	84,063	24,477	108,540	135	11,975
	1951	102,131	27,316	129,447	137	14,336
	1952	111,751	28,450	140,201	138	15,590
	1953	118,781	30,860	149,641	138	16,193
	1954	126,635	31,573	158,208	139	17,569
	1955	140,753	33,312	174,065	144	18,835

TOTAL SALES AND AVERAGE NUMBER OF STORES IN OPERATION 1946-1955

taining similar charges were filed. We do not believe that the Company has violated these laws in any way, unless meeting competition in good faith has become a crime or unlawful. Your Management is confident that after a fair trial it will be found that your Company has done nothing more than meet established competitive prices and that the charges made in these suits are entirely unjustified.

EMPLOYEE BENEFITS

Your Company makes liberal group insurance, retirement and profit-sharing benefits available to its eligible employees.

Group insurance, with life, accidental death, weekly benefits, hospital, surgical, laboratory and x-ray, polio and major medical coverages for employees and hospital, surgical and polio coverages for their dependents are provided at reasonable cost to the employees. At the end of the year group insurance in force totaled $816,199,384 in the United States and $79,457,646 in Canada and was carried by 34,925 or 88% of the eligible employees in the United States and 2,823 or 94% of the eligible employees in Canada.

Also, at the year-end 9,487 employees, or 92% of those eligible were members of the United States and Canadian Employee Retirement Plans with retirement benefits being paid to 488 employees. Your Company's 1955 contributions to these plans were $2,144,523 in the United States and $292,942 in Canada, or approximately 5% of the payroll of participating employees.

Payments into the Profit-Sharing Plan, based on 1955 compensation of participating employees, totaled $3,427,643. This represents deferred compensation earned by the participants and is fully deductible for tax purposes by the Company.

EMPLOYEES AS CITIZENS

Your Company desires to be a part of each community in which it does business. It strives to carry its share of community charity and welfare costs and to pay its fair share of local and state taxes. All employees are encouraged to take an active part in community affairs. A great number of our employees are active members of service clubs, others serve on local civic bodies, city councils, school boards and parent-teachers' groups and many are active in church affairs. Your Company takes great pride in the number of these employees who stand out as good citizens of the communities in which they reside.

MANAGEMENT CHANGES

At a meeting of the stockholders held on October 3, 1955, the resignations of Lingan A.

Warren as the President, General Manager and a Director of your Company became effective and Robert A. Magowan was elected a Director to fill the vacancy created by Mr. Warren's resignation from that office. Later on the same date, the Board of Directors elected Mr. Magowan Chairman of the Board of Directors and Milton L. Selby President of the Company.

The size of the Company's Board of Directors was increased from 9 to 14 members on February 7, 1956, and six new Directors, each with broad experience in the management of the affairs of well-known business organizations, were elected to the Board. These new Directors are Jack I. Straus, President of R. H. Macy & Co., Inc.; Charles de Bretteville, President of Spreckels Sugar Company; Joseph Long, President of Longs Stores; James G. Boswell II, President of the J. G. Boswell Company; Brayton Wilbur, President of the Wilbur-Ellis Company, and M. W. McCarthy, Assistant Managing Partner of Merrill Lynch, Pierce, Fenner & Beane. At this same meeting, the resignation of Dwight M. Cochran as a Vice President and Director was accepted. Mr. Cochran will continue his employment with the Company as a Consultant.

We wish to take this opportunity to express our sincere appreciation for the complete cooperation which all officers and employees have given us in inaugurating our program and in making necessary changes in policies and procedures.

Milton L. Selby

President

Approved:

Robert A. Magowan

Chairman of the Board

INSIDE SAFEWAY

The highly competitive nature of this business has produced many advances in modern grocery store merchandising. Changes have been dynamic and colorful. Each year finds new developments in store design, interior layouts, material handling, sales methods and distribution. Even the "shopping habits" of consumers change. To remain successful, today's retailer must be progressive. Food retailing has become a highly specialized field of business.

For an interesting pictorial trip "Inside Safeway," turn the opposite page. You'll see some of the things your Company is doing to meet the challenge.

SAFEWAY
SAFEWAY

INSIDE SAFEWAY—

THE RETAIL LOCATIONS

Variety of architectural design of Safeway locations is evidenced in illustrations, right. However, while the style of designs may differ, interiors of Safeway stores follow similar layout pattern. Stores pictured (top to bottom) are: Spanish-California style, Santa Barbara, Calif.; modern style, combining stone and stucco, Nanaimo, B. C.; colonial, Washington, D. C.; and contemporary, Mill Valley, Calif.

Attractiveness of color harmony is exemplified by this picture of a modern Safeway retail location.

The planning of a modern retail food store requires imagination as well as a precise knowledge of architectural and engineering sciences. A supermarket must be efficient to operate profitably, yet at the same time must have a "personality" that appeals to customers.

The new stores being built by Safeway under our multi-million-dollar construction program, vary in exterior design. No uniform design has been adopted because: (1) local zoning laws may conflict with plans; (2) we need flexibility to adapt new ideas continually being developed by our research; (3) in some cases, we want to match our store design to the architectural plan of the community.

Selection of exterior design and colors are aimed at making the supermarket appear "warm" and friendly. The exterior colors adopted by your Company — warm beiges, gray greens and gold—form appealing combinations, avoiding gaudiness. We want each store to be a credit to the community.

INSIDE SAFEWAY—

CUSTOMER APPEAL

Here you see some of the things Safeway is doing to enhance "customer appeal" inside our stores. Aisles are wide to avoid crowding and encourage leisurely shopping. Merchandise is easy to find and is attractively displayed. Modern refrigeration techniques maintain high quality of such perishables as produce, dairy, bakery products, and meats. Enough checkstands are provided to assure fast, efficient check-out service. Carry-out service is offered for the shoppers' convenience. These factors, coupled with the all-important requisite of alert, friendly employees, greatly influence the family shopper in the choice of a food store.

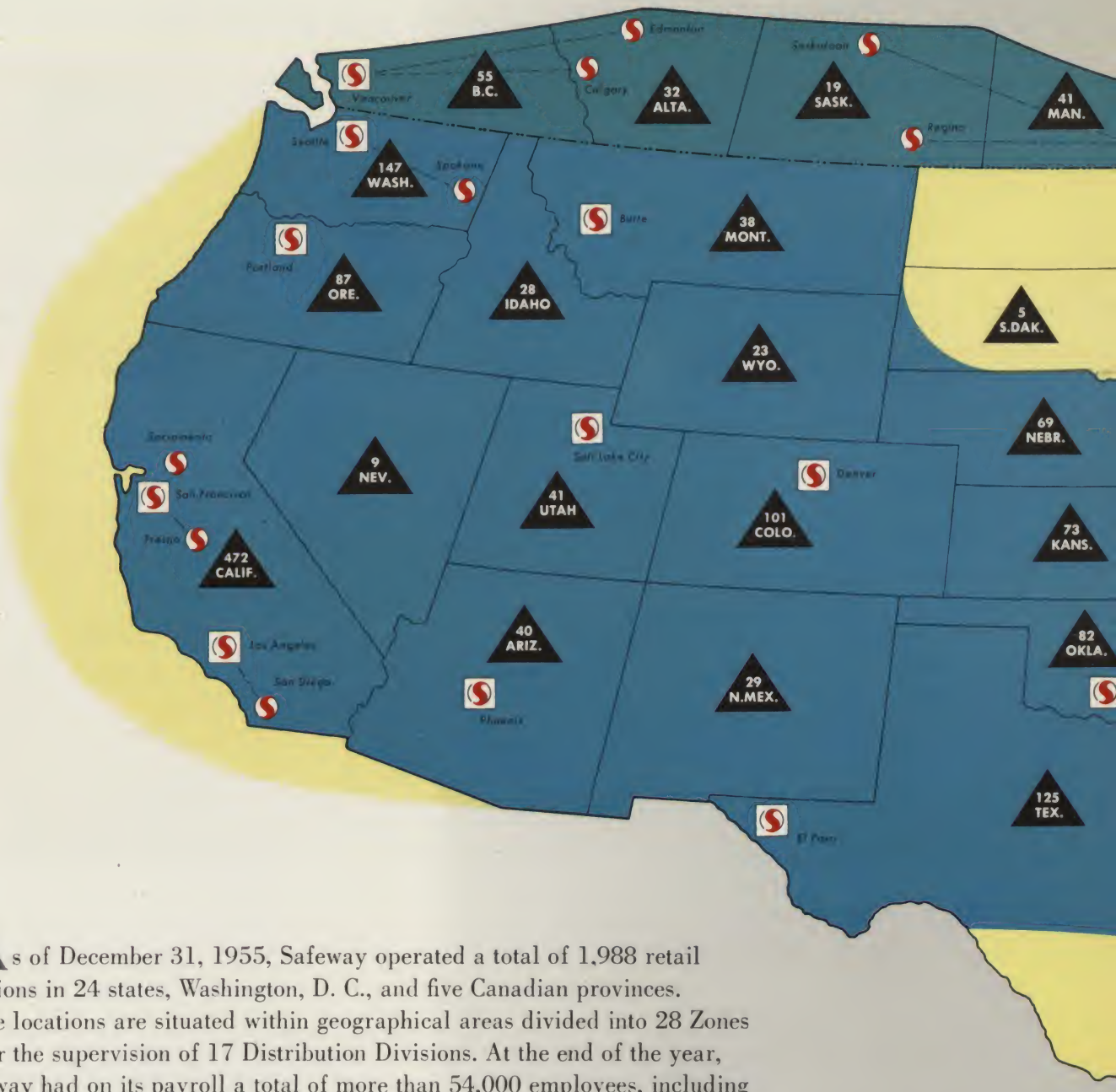
But, adding to the effectiveness of "customer appeal" in a modern Safeway store, is another factor.

This is color. Safeway's interior colors have been carefully developed to create a pleasant atmosphere while also adding to eye-appeal of the merchandise. The specific colors used in each section of the store are the result of extensive research. Each tends to show the particular display of merchandise to best advantage.

The dramatic wide-angle shot of a Safeway store (above) clearly reveals the spaciousness of shopping areas and the neat stock-shelving plan. Backstage operations include stockroom; meat cutting and wrapping rooms; cold storage rooms for produce, meats, dairy products, and frozen foods.

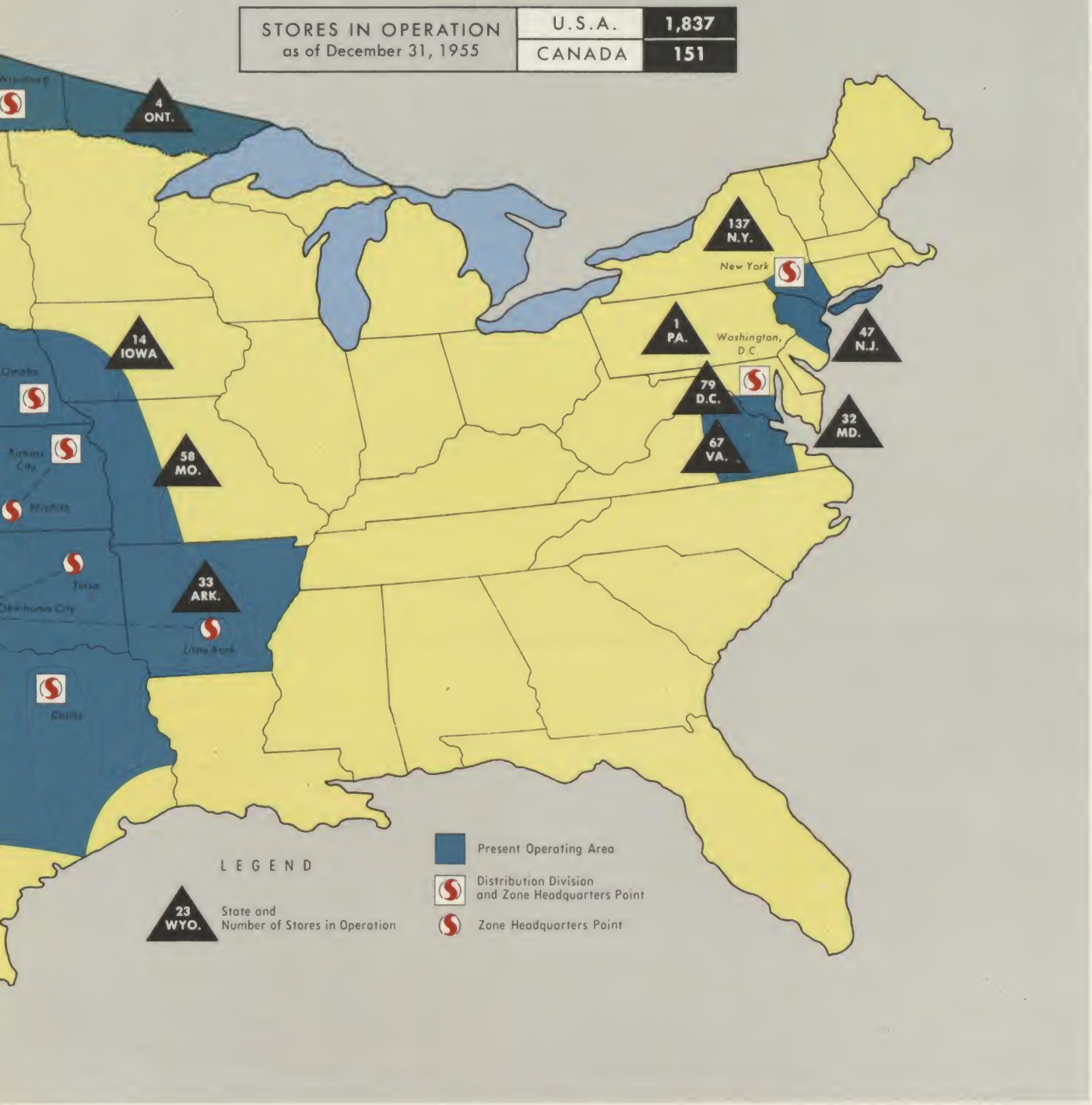
The four insets illustrate the function of color in highlighting the merchandise in each section. The colors cannot dominate the scene. They must be subtle, yet appealing; serving as background for the real star of the show—the merchandise on display.

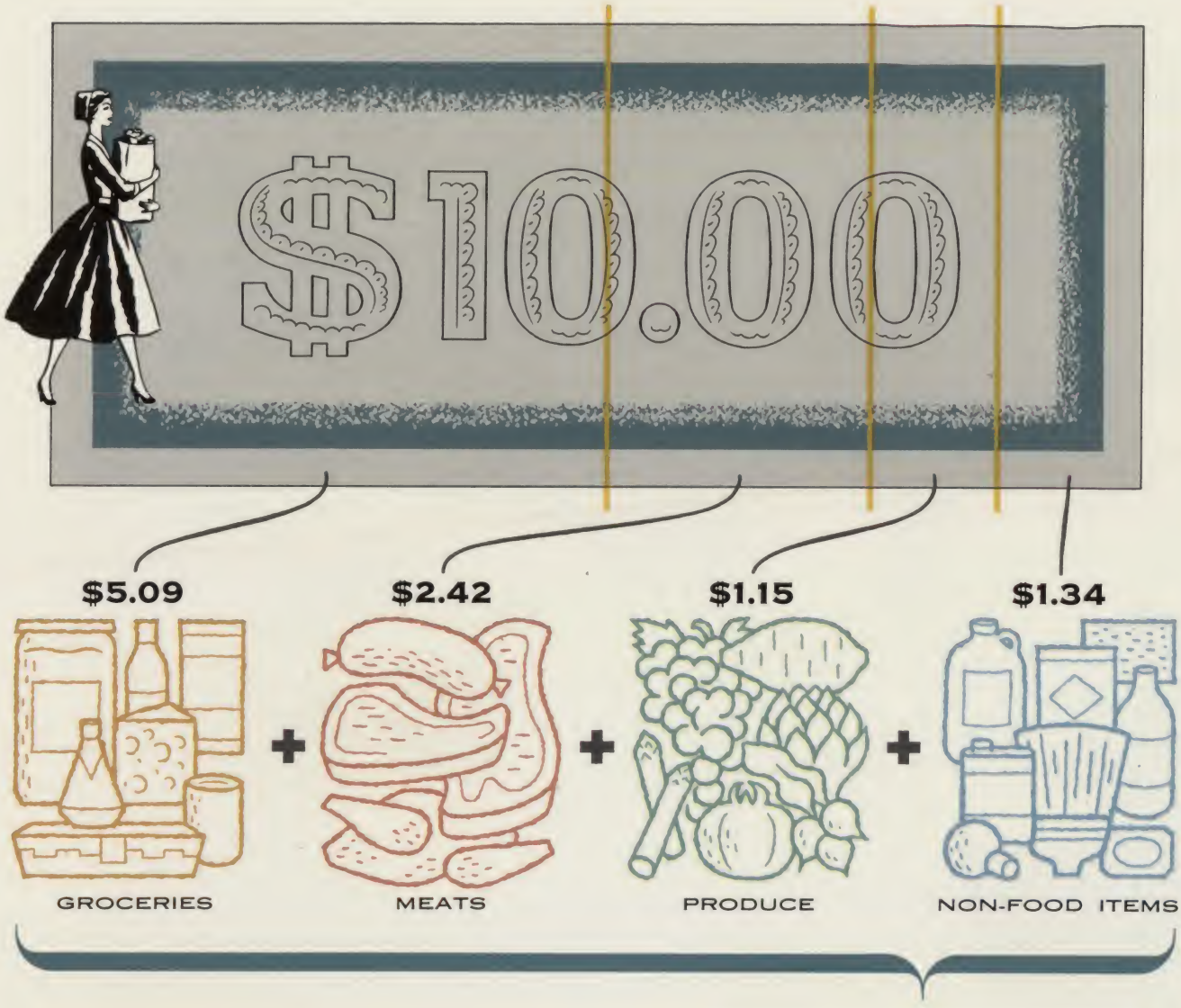
THE RETAIL OPERATIONS OF SAFE



As of December 31, 1955, Safeway operated a total of 1,988 retail locations in 24 states, Washington, D. C., and five Canadian provinces. These locations are situated within geographical areas divided into 28 Zones under the supervision of 17 Distribution Divisions. At the end of the year, Safeway had on its payroll a total of more than 54,000 employees, including project and part-time workers.

WAY STORES, INCORPORATED



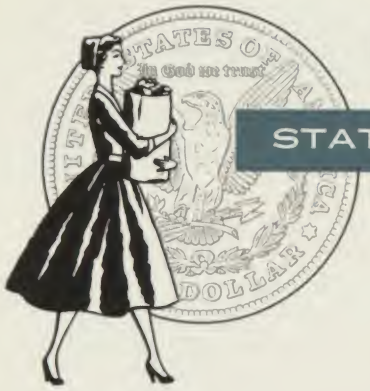


A TYPICAL BREAKDOWN OF A $10.00 PURCHASE AT SAFEWAY

When the average 1955 shopper made a typical $10.00 purchase at Safeway, her shopping followed the pattern shown above. At right is a further breakdown showing the Company's distribution of the shopper's $10.00.

DISTRIBUTION OF THE $10.00 RECEIVED

Cost of Merchandise	$ 8.41
Employees	.80
Operating Expenses	.50
Taxes	.14
Depreciation	.08
	9.93
Dividends	.05½
	9.98½
Retained	.01½
	$10.00



SAFEWAY STORES, INCORPORATED AND ALL SUBSIDIARIES CONSOLIDATED

STATEMENT OF PROFIT AND LOSS

and Net Income Retained in the Business for the Year Ended December 31, 1955, with Comparative Figures for the Preceding Year

	1955	1954
Sales to Public	$1,932,243,202	$1,813,516,636
Cost of Sales	1,624,810,518	1,531,502,208
Gross profit	307,432,684	282,014,428
Operating and Administrative Expenses	274,259,865	249,026,037
Operating profit	33,172,819	32,988,391
Interest Received and Sundry Income	272,671	226,002
	33,445,490	33,214,393
Other Charges:		
Interest on debentures	2,991,653	553,292
Other interest	1,877,231	3,102,022
Amortization of debenture issue expense	165,482	26,688
Loss on disposition of fixed assets (net)	707,352	389,348
Dividends to public on preferred stock of a subsidiary	373,345	312,211
	6,115,063	4,383,561
Profit before taxes on income	27,330,427	28,830,832
Provision for Taxes on Income:		
Federal normal income tax and surtax	10,490,000	11,652,000
Canadian and other income taxes	3,218,624	3,195,061
	13,708,624	14,847,061
Net Profit for Year	13,621,803	13,983,771
Net Income Retained in the Business at Beginning of Year	61,615,251	58,335,653
	75,237,054	72,319,424
Deduct:		
Cash dividends:		
4.30% convertible preferred stock	1,146,842	767,421
4% preferred stock	1,125,492	1,147,976
Common stock—$2.40 per share	8,385,676	8,336,264
Expenses of sale of 4.40% preferred stock and premium on redemption of 5% preferred stocks of Canada Safeway Limited	540,605	—
Expenses of sale of 4.30% preferred stock	—	808,410
Transfer to additional paid-in capital of issue expense of 4.30% and 4½% preferred stocks converted into common stock	(7,385)	(355,898)
	11,191,230	10,704,173
Net Income Retained in the Business at End of Year	$ 64,045,824	$ 61,615,251

See notes to financial statements

SAFEWAY STORES, INCORPORATED AND ALL SUBSIDIARIES CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

as of December 31, 1955, with Comparative Figures for the Preceding Year

	1955	1954
Current Assets:		
Cash	$ 60,000,926	$57,219,730
Accounts receivable—less allowance for uncollectible accounts 1955, $110,723 and 1954, $90,723	6,622,743	5,497,080
Merchandise inventories—at lower of cost or market	155,819,585	145,507,642
Prepaid insurance, taxes, rents, supplies, etc.	6,978,141	8,213,867
Properties for sale under the Company's real estate program	34,176,941	26,040,271
Total Current Assets	$263,598,336	$242,478,590
Deduct Current Liabilities:		
Notes and debentures payable	$ 57,370,000	$ 31,150,000
Accounts, mortgages and drafts payable	85,181,273	67,768,612
Accrued expenses	12,938,969	11,164,878
Dividends payable	677,452	597,742
Federal and Canadian income taxes	11,845,876	13,908,555
Total Current Liabilities	$168,013,570	$124,589,787
Working Capital (Carried forward)	$ 95,584,766	$117,888,803
Current assets per dollar of current liabilities	$1.57	$1.95

See notes to financial statements

SAFEWAY STORES, INCORPORATED AND ALL SUBSIDIARIES CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

as of December 31, 1955, with Comparative Figures for the Preceding Year

	1955	1954
Working Capital (Brought forward)	$ 95,584,766	$117,888,803
Notes Receivable and Miscellaneous Investments	2,902,973	3,222,461
Fixed Assets—at cost less depreciation of $91,049,908	156,028,338	124,893,479
Unamortized Debenture Issue Expense	962,710	1,081,084
Working Capital and Other Assets	$255,478,787	$247,085,827
Deduct:		
Debentures payable—long term	$ 69,780,000	$ 71,250,000
Mortgages payable—long term	5,533,374	2,103,914
Preferred stock, par value $100, of Canadian subsidiary held by public	10,000,000	6,244,300
	$ 85,313,374	$ 79,598,214
Stockholders' Equity	$170,165,413	$167,487,613
Deduct:		
4.30% convertible preferred stock (cumulative) par value $100 per share—authorized and outstanding 264,443 shares	26,444,300	26,688,200
4% preferred stock (cumulative) par value $100 per share—authorized 501,920 shares. Outstanding 280,398 shares (after deducting 1,150 shares in treasury)	28,039,800	28,341,400
	$ 54,484,100	$ 55,029,600
Common Stockholders' Equity	$115,681,313	$112,458,013
Consisting of:		
Common stock—authorized 9,000,000 shares—par value $5 per share—outstanding 3,500,414.42 shares (after deducting 15,317.58 shares in treasury)	$ 17,502,072	$ 17,399,422
Additional paid-in capital	34,133,417	33,443,340
Net income retained in the business	64,045,824	61,615,251
Common Stockholders' Equity	$115,681,313	$112,458,013
Book value per share of common stock	$33.05	$32.32

See notes to financial statements

P E A T, M A R W I C K, M I T C H E L L & C O.

ACCOUNTANTS' REPORT

The Board of Directors,
Safeway Stores, Incorporated:

We have examined the statement of consolidated financial position of Safeway Stores, Incorporated and all subsidiaries as of December 31, 1955 and the related statement of profit and loss and net income retained in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated profit and loss and net income retained in the business present fairly the financial position of Safeway Stores, Incorporated and all subsidiaries at December 31, 1955 and the results of their operations for the year then ended. Generally accepted accounting principles have been employed, in statements herein, on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California
February 24, 1956.

NOTES TO FINANCIAL STATEMENTS

Principles of Consolidation. All subsidiaries of the Company are included in the consolidated financial statements. The accounts of the Canadian subsidiaries are consolidated as U. S. funds at dollar for dollar.

Properties for Sale Under the Company's Real Estate Program. This includes properties under the Company's "buy—build—sell—lease" program which the Company reasonably anticipates will be developed and sold within approximately one year. The amount at December 31, 1954 is restated from that previously reported to exclude properties held for longer-term development of $18,400,605, which are included in Fixed Assets.

Fixed Assets and Depreciation. Equipment used by the Company and its subsidiaries is leased in the United States from Cortland Equipment Lessors, Incorporated and in Canada from Wingate Equipment Lessors Limited. These subsidiaries have assigned the leases and all rentals thereunder as security for payment of their debentures.

The total amount included as depreciation expense for 1955 in the accompanying accounts is $20,082,223.

Debentures Payable. The debentures are payable by subsidiaries of the Company and consist of the following: United States—Cortland Equipment Lessors, Incorporated: $45,000,000 Series A, 3.15% to 4%, maturing $5,000,000 annually; $24,000,000 Series B, 4¼%, sinking fund requirement of $1,000,000 annually through 1964, then $3,000,000 annually through 1968, and maturing in 1969; Canada—Wingate Equipment Lessors Limited: $2,000,000 Series A, 4½%, maturing $200,000 annually; $3,000,000 Series B, 4½%, sinking fund requirement of $120,000 annually through 1965 and then $360,000 annually through 1969 maturing in 1970; Macdonalds Consolidated Limited: $2,250,000 3¼%, $150,000 due December 31, 1956 and $2,100,000 due June 16, 1957; Total $76,250,000 (including $6,470,000 due in 1956).

Properties Mortgaged. Included in the accompanying statements are land and buildings costing $18,543,729 which are mortgaged for $9,012,525.

Capital Stock. The terms of issue of the 4.30% and 4% preferred stocks require sinking funds sufficient to provide for retirement annually of 2% of the maximum number of shares issued, with the requirement as to the 4.30% preferred commencing October 1, 1965. The sinking fund requirements for 1956 are approximately $509,000. The terms of issue of the preferred stock of the Canadian subsidiary (100,000 shares of 4.40% preferred) provide for a fund of $300,000 to be set aside in 1956 for the purchase of stock, for the purpose of cancellation, if available at par value or less, and annual replenishment of expenditures from the fund. The preferred stocks are subject to redemption on call at a premium which is now $2.00 per share on the 4% preferred, $3.00 per share on the 4.30% preferred and $4.00 per share on the Canadian preferred, which becomes reduced periodically ultimately to 50 cents per share.

Of the unissued common stock 574,876 shares are reserved for conversion of the outstanding 4.30% preferred stock convertible at par at $46.00 per share of common. In addition, 118,049 shares of the common stock are reserved for issuance to officers and employees pursuant to a restricted stock option plan under which options to purchase common stock may be granted to officers and employees of the Company and its subsidiaries, as determined by the Board of Directors, in consideration of agreements not to terminate employment for stated periods. Under the plan, options are outstanding for 93,049 shares, of which 35,049 are exercisable at $33⅞ per share; 52,000 at $36⅝ and 6,000 at $45⅜. All options become void after December 31, 1961 and unless exercised within three months after employment terminates, with one year extension on employee's death. Options for 28,618 shares were exercised on or before December 31, 1955.

Additional Paid-In Capital. Changes in Additional Paid-In Capital of Safeway Stores, Incorporated and subsidiaries during the year consist of net discount on preferred stock acquired $7,832, excess of proceeds over par value of common stock issued under options exercised $473,806, excess of par value of preferred stocks over par value of common stock issued on conversion $215,824, less pro-rata share of original issue expense $7,385.

Employees' Retirement and Profit-Sharing Plans. Payments by the Companies into the Employees' Retirement Plan Trust Funds for the year amounted to $2,144,523 in the U. S. and $292,942 in Canada. Payments to the Profit-Sharing Plan Trustee for the year amounted to $3,427,643 in the U. S.

Contingent Liabilities and Commitments. (a) The liability upon completion of contracts for the construction of buildings not reflected in the financial statements amounted to approximately $20,000,000.

(b) The leases in effect for stores, warehouses, and other properties number 2,797. Of these, 2,002 contain options to cancel. Should the Company exercise these options, it could be required to purchase 1,506 properties. The minimum annual rental for 1956 under all leases (some of which contain percentage of sales clauses) is approximately $21,600,000; this amount decreases annually until the year 2007 as leases expire.

(c) The Company is a defendant in certain actions in which it is charged with alleged violations of the Sherman Antitrust Act and the Robinson-Patman Act which have not yet come to trial.

SAFEWAY STORES,
COUPONS
PLEASE PRESENT
COUPONS
OLYMPIA
TOLEDO

INCORPORATED

A MARYLAND CORPORATION

EXECUTIVE OFFICERS

ROBERT A. MAGOWAN,
Chairman of the Board of Directors
MILTON L. SELBY, *President and Treasurer*
CHESTER N. SANDERS, *Vice President*
A. RUSSELL GRIFFITH, *Vice President*
GEORGE T. BURROUGHS, *Vice President*
WILLIAM S. MITCHELL, *Controller*
DRUMMOND WILDE, *Secretary*

DIRECTORS

ROBERT A. MAGOWAN,
Chairman of the Board
MILTON L. SELBY, *President*
C. N. SANDERS, *Vice-President*
A. R. GRIFFITH, *Vice-President*
G. T. BURROUGHS, *Vice-President*
W. S. MITCHELL, *Controller*
ARTEMUS L. GATES
NORMAN CHANDLER
J. G. BOSWELL, II
CHARLES DE BRETTEVILLE
JOSEPH M. LONG
MICHAEL W. MCCARTHY
J. I. STRAUS
BRAYTON WILBUR

EXECUTIVE OFFICES

4th and Jackson Streets,
Oakland, California

TRANSFER AGENTS

THE CHASE MANHATTAN BANK
New York, New York

THE CROCKER ANGLO-NATIONAL BANK
San Francisco, California

REGISTRARS

CITY BANK
FARMERS TRUST COMPANY
New York, New York

BANK OF CALIFORNIA,
NATIONAL ASSOCIATION
San Francisco, California

AUDITORS

PEAT, MARWICK, MITCHELL & CO.

CORPORATE COUNSEL

BROWN, WOOD, FULLER,
CALDWELL & IVEY
New York, New York